

| Bath & North East Somerset Council | |
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| MEETING: | AVON PENSION FUND COMMITTEE |
| MEETING DATE: | 25 SEPTEMBER 2020 |
| TITLE: | ANNUAL RESPONSIBLE INVESTMENT REPORT |
| WARD: | ALL |
| AN OPEN PUBLIC ITEM | |
| List of attachments to this report: Appendix 1 – Responsible Investment Annual Report 2019/20 Appendix 2 – Brunel RI presentation | |

1. THE ISSUE

- 1.1. The Fund has a Responsible Investing (RI) Policy in place to address the impact of risks arising from RI issues on the investments portfolio.
- 1.2. Given that transparency and disclosure of the RI policy and activities is an important element of being a responsible investor, the Fund publishes an annual report demonstrating how the policy has been implemented during the year.
- 1.3. Brunel are our strategic partner for developing, implementing and monitoring our RI policies and priorities. For the year ending December 2019 Brunel have published a Responsible Investing and Stewardship Outcomes Report – elements of this report have been incorporated into the Fund's Annual RI report. The full Brunel document is included in the list of attachments to the report.
- 1.4. The draft Responsible Investment report for 2019/20 demonstrates how the Fund has implemented the policy throughout the year. The report will be published on the Fund's website once it has been approved by the Committee.
- 1.5. At the meeting Brunel will give a short presentation on their current RI activity.

2. RECOMMENDATION

- 2.1. **Approves the Annual Responsible Investment Report for 2019/20 for publication.**
- 2.2. **Agrees the RI priorities for 2020/21**

3. FINANCIAL IMPLICATIONS

- 3.1. The budget includes the costs of the carbon and environmental analysis provided by Brunel as an elective service.

4. RESPONSIBLE INVESTMENT REPORT

- 4.1. This is the eighth annual report on responsible investment prepared by the Fund. The aim is to bring together all the aspects of the Fund's policies and activities that contribute to its responsible investing objectives.
- 4.2. The report sets out the RI and Environmental, Social and Governance (ESG) issues that have been taken into account and how these were addressed through strategic decision making. The major strategic updates during the year were as follows:
- a) The climate change modelling work undertaken by the Fund as part of the 2019/20 investment strategy review leading to a series of climate change objectives and asset allocation changes, as detailed in Appendix 1 (Strategic Developments section).
 - b) Transition of assets to Brunel and further policy development in collaboration with Brunel and its strategic partners.
 - c) Monitoring, reporting and scrutinising investment managers RI activity.
 - d) Active participation in several industry initiatives including Local Authority Pension Fund Forum (LAPFF) and ClimateAction 100+ (CA100+). This year the Fund joined the Institutional Investors Group on Climate Change (IIGCC) and post period-end has been working with IIGCC and Brunel to help develop a framework for investors' asset allocation to meet the Paris Agreement goal of becoming <2°C aligned.
- 4.3. The Fund participated in over 6,500 shareholder meetings and engaged with over 400 companies in its active equity portfolio on a range of over 1000 ESG issues. In general terms, there was an increase in environmental-related proposals winning voter support, with companies increasingly setting carbon reduction targets. In the UK and US markets executive remuneration and board structure continued to be a focus for shareholder resolutions.
- 4.4. The Fund is 25% less carbon intensive on a Weighted Average Carbon Intensity (WACI) basis than its benchmark. The lower carbon intensity is attributed to the low carbon passive equity strategy and active equity managers generally picking less carbon intensive stocks than the broader market; Brunel's portfolios seek a carbon intensity improvement of at least 7% year on year. This year all of their listed equity portfolios were at least 7% less carbon intensive than their respective benchmarks and in a number of cases were substantially lower. Future analysis will highlight the impact of recent asset allocation changes and how the Fund is progressing towards its aim of reducing carbon intensity of the equity portfolio over time.
- 4.5. The report explains how Brunel and its third-party providers have delivered against policy over the year. Among other things, the report includes engagement highlights, examples of policy advocacy work that Brunel has either led or participated in and voting data generated by Federated Hermes.
- 4.6. The Fund's RI priorities for 2020/21, contained in the final section of the report, are unchanged from last year as all these topics remain relevant from a strategic

perspective to the Fund. There is as expected a large degree of alignment with Brunel's priority themes. The Committee are asked to agree these priorities:

- a) Climate change including pollution, waste and plastics
- b) Human capital
- c) Diversity and inclusion
- d) Cyber security
- e) Cost and tax transparency

5. RISK MANAGEMENT

5.1. Responsible investing issues can have a material impact on investment risk and return in the long term. The Fund's Responsible Investment Policy seeks to ensure the long-term RI risks to which the Fund is exposed are fully incorporated into strategic and operational (i.e. the investment manager's) decision making, and that the Fund carries out its duties as a responsible investor and shareholder.

6. EQUALITIES

6.1. A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

7. CLIMATE CHANGE

7.1. The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8. OTHER OPTIONS CONSIDERED

8.1. None

9. CONSULTATION

9.1. The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

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| Contact person | Nathan Rollinson, Investments Manager, 01225 395357 |
| Background papers | None |
| Please contact the report author if you need to access this report in an alternative format | |